

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Emmet County Road Commission	County Emmet
Audit Date 12/31/05	Opinion Date 5/5/06	Date Accountant Report Submitted to State: 5/24/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI	ZIP 49788
Accountant Signature 		Date 5/24/06	

EMMET COUNTY ROAD COMMISSION

BASIC FINANCIAL STATEMENTS

For the Year Ended December 31, 2005

EMMET COUNTY

BOARD OF COUNTY ROAD COMMISSIONERS

Leroy Sumner
Vice - Chairman

Frank Zulski, Jr.
Chairman

K. Frederick Hoffmann D.D.S.
Member

Brian A. Gutowski, P.E.
Engineer - Manager

Judy Fouch
Clerk

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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DIVISION FOR CPA FIRMS

MEMBER MACPA

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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the accompanying financial statements of the governmental activities and major fund of the Emmet County Road Commission (a component unit of the County of Emmet, Michigan) as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, provisions of Public Act 71 of 1919, section 21.41 of the Michigan Compiled Laws, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Emmet County Road Commission as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2006 on our consideration of the Emmet County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Emmet County Road Commission's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2006

Management's Discussion and Analysis

Using This Annual Report

The Emmet County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

Reporting the Road Commission as a Whole

The statement of net assets and the statement of activities report information about the road commission as a whole and about its activities in a way that helps answer the question of whether the road commission as a whole is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Reporting the Road Commission's Major Fund

Our analysis of the road commission's major fund begins on page 11. The fund financial statements begin on page 26 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental fund type.

- Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The road commission's net assets increased approximately 45.6% from \$5.7 million to \$8.3 million for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$361 thousand. The primary reason for the increase was grant proceeds. Also, it is important for the reader to realize that the increase in capital assets is largely a result of road commission infrastructure assets.

Net assets as of the years ended December 31, 2005 and 2004 are as follows:

	Governmental Activities	
	2005	2004
Current and Other Assets	\$ 2,350,564	\$ 1,985,897
Capital Assets	<u>9,629,769</u>	<u>6,908,252</u>
Total Assets	<u>11,980,333</u>	<u>8,894,149</u>
Current Liabilities	849,026	808,797
Other Liabilities	<u>2,789,044</u>	<u>2,355,642</u>
Total Liabilities	<u>3,638,070</u>	<u>3,164,439</u>
Net Assets:		
Invested in Capital Assets – net of debt	6,769,057	4,517,692
Restricted	<u>1,573,206</u>	<u>1,212,018</u>
Total Net Assets	<u>\$ 8,342,263</u>	<u>\$ 5,729,710</u>

A summary of changes in net assets for the years ended December 31, 2005 and 2004 are as follows:

	Governmental Activities	
	2005	2004
Program Revenues:		
Charges for Services	\$ 1,237,326	1,343,615
Operating Grants and Contributions	6,269,706	3,944,085
Capital Grants and Contributions	-	69,109
General Revenues:		
Interest Earnings	13,689	7,299
Gain on Disposal of Equipment	309	34,418
Total Revenues	<u>7,521,030</u>	<u>5,398,526</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,635,172	1,565,466
Local Roads:		
Maintenance	1,678,545	1,820,964
State Trunkline:		
Maintenance	708,672	767,751
Nonmaintenance	24,822	34,455
Equipment Expense	209,980	83,373
Administrative	410,800	370,567
Other	166,434	105,339
Interest	74,052	92,590
Total Expenses	<u>4,908,477</u>	<u>4,840,505</u>
Increase in Net Assets	2,612,553	558,021
Beginning, Net Assets	<u>5,729,710</u>	<u>5,171,689</u>
Ending, Net Assets	<u>\$ 8,342,263</u>	<u>\$ 5,729,710</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operations fund increased \$371,560 as compared to a decrease of \$637,817 in the fund balance for the year ended December 31, 2004. Total revenues were \$8,239,390, an increase of \$2,840,864 as compared to last year. This change in revenues resulted primarily from an increase in township funding and installment proceeds.

Total expenditures were \$7,867,830, an increase of \$1,831,487 as compared to last year. This change in expenditures is primarily the increase in local and primary road preservation costs in the current year and loan reductions. The road commission incurred capital outlays due to equipment purchases.

Budgetary Highlights

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The revenue budget for 2005 was lower than the actual receipts by \$353,067. This was due, in a large part, to the projection of installment proceeds.

Road Commission expenditures were projected at \$7,691,991 while actual expenditures were \$7,867,830. This resulted in total expenditures over budget by \$175,839. The largest share of the variance is in the construction line items.

Capital Asset and Debt Administration**Capital Assets**

As of December 31, 2005 and 2004 the road commission had invested in capital assets as follows:

	<u>2005</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Construction in Progress	\$ 88,306	\$ -
Land and Improvements	<u>1,997,340</u>	<u>1,079,975</u>
Total Capital Assets Not Being Depreciated	<u>2,085,646</u>	<u>1,079,975</u>
Other Capital Assets		
Buildings and Improvements	4,532,188	4,518,568
Road Equipment	6,513,668	6,162,745
Other Equipment	697,914	693,151
Infrastructure and Improvements	<u>3,009,708</u>	<u>1,061,716</u>
Total Capital Assets at Historic Cost	<u>14,753,478</u>	<u>12,436,180</u>
Total Accumulated Depreciation	<u>(7,209,355)</u>	<u>(6,607,903)</u>
Total Net Capital Assets	<u>\$ 9,629,769</u>	<u>\$ 6,908,252</u>
Current year's major additions included the following:		
Land Improvements	\$ 13,620	\$ 126,730
Building Renovations	\$ -	\$ 541,791
Various Resurfacing Projects	<u>\$ 2,953,663</u>	<u>\$ 601,335</u>
Trucks/Equipment	<u>\$ 362,248</u>	<u>\$ 265,819</u>

Debt

The road commission has long-term debt obligations in the amount of \$3,064,518. The Commission executed an installment obligation with a financial institution in the amount of \$800,000 during 2005. These monies were used for equipment purchases.

Economic Factors and Next Year's Budget

The board of county road commissioner's considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The road commission derives approximately 74% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Emmet County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Emmet County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Emmet County Road Commission administrative offices at 2265 E. Hathaway Road, Harbor Springs, Michigan.

Basic Financial Statements

Emmet County Road Commission

Statement of Net Assets December 31, 2005

ASSETS

Cash and Equivalents	\$ 1,085,446
Accounts Receivable:	
Michigan Transportation Fund	571,797
State – Trunkline Maintenance	131,829
State – Other	11,006
Sundry Accounts	54,242
Due on County Road Agreements	25,029
Inventories:	
Road Materials	333,067
Equipment, Parts and Materials	138,148
Capital Assets (Net of Accumulated Depreciation)	<u>9,629,769</u>
Total Assets	<u>\$ 11,980,333</u>

LIABILITIES

Current Liabilities:	
Accounts Payable	\$ 122,427
Accrued Liabilities	30,236
Advances from State	224,653
Deferred Revenue	188,539
Interest Payable	7,176
Escrow Payable	521
Installment Purchase Agreements Payable	131,182
Bonds Payable	144,292
Noncurrent Liabilities:	
Vested Employee Benefits	210,982
Installment Purchase Agreements' Payable	644,542
Bonds Payable	<u>1,933,520</u>
Total Liabilities	<u>3,638,070</u>

NET ASSETS

Investment in Capital Assets -	
Net of Related Debt	6,769,057
Restricted for County Road	<u>1,573,206</u>
Total Net Assets	<u>\$ 8,342,263</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Statement of Activities For the Year Ended December 31, 2005

Program Expenses:	
Primary Road Maintenance	\$ 1,635,172
Local Road Maintenance	1,678,545
State Trunkline Maintenance	733,494
Net Equipment Expense	209,980
Net Administrative Expense	410,800
Other	10,372
Interest Expense	74,052
Depreciation - Unallocated	<u>156,062</u>
Total Program Expenses	<u>4,908,477</u>
Program Revenues:	
License and Permits	41,550
Federal Grants	488,346
State Grants	3,859,249
Contributions from Local Units	1,922,111
Charges for Services	<u>1,195,776</u>
Total Program Revenues	<u>7,507,032</u>
Net Program Revenues	<u>2,598,555</u>
General Revenue	
Interest Earnings	13,689
Gain on Equipment Disposal	<u>309</u>
Total General Revenues	<u>13,998</u>
Change in Net Assets	2,612,553
Net Assets	
Beginning of Year	<u>5,729,710</u>
End of Year	<u>\$ 8,342,263</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Balance Sheet December 31, 2005

Governmental
Fund Type
General
Operating Fund

ASSETS

Cash and Equivalents	\$ 1,085,446
Accounts Receivable:	
Michigan Transportation Fund	571,797
State Trunkline Maintenance	131,829
State – Other	11,006
Due on County Road Agreements	25,029
Sundry Accounts	54,242
Inventories:	
Road Materials	333,067
Equipment, Parts, and Materials	<u>138,148</u>
Total Assets	<u>\$ 2,350,564</u>

LIABILITIES AND FUND EQUITY

Liabilities:	
Accounts Payable	\$ 122,427
Accrued Liabilities	30,236
Escrow Payable	521
Advances from State	224,653
Deferred Revenue	<u>188,539</u>
Total Liabilities	<u>566,376</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	<u>1,784,188</u>
Total Fund Equities	<u>1,784,188</u>
Total Liabilities and Fund Equities	<u>\$ 2,350,564</u>

The Notes to Financial Statements are an integral part of this statement.

**Reconciliation of the Balance Sheet Fund
Balance to the Statement of Net Assets
For the Year Ended December 31, 2005**

Total Governmental Fund Balance \$ 1,784,188

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 9,629,769

Other long-term assets are not available to pay for current period
expenditures and therefore are not reported in the funds. (3,064,518)

Interest accrued on long term debt obligations payable in current
period. (7,176)

Net Assets of Governmental Activities \$ 8,342,263

Emmet County Road Commission**Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2005**

	<u>General Operating Fund</u>
Revenues:	
License and Permits	\$ 41,550
Federal Sources	488,346
State Sources	3,859,249
Contributions from Local Units	1,922,111
Charges for Services	783,410
Interest and Rents	13,689
Other Revenue	331,035
Other Sources	<u>800,000</u>
Total Revenues	<u>8,239,390</u>
Expenditures	
Public Works	7,621,654
Capital Outlay	(76,084)
Debt Service	<u>322,260</u>
Total Expenditures	<u>7,867,830</u>
Excess of Revenues Over (Under) Expenditures	371,560
Fund Balance – January 1, 2005	<u>1,412,628</u>
Fund Balance – December 31, 2005	<u>\$ 1,784,188</u>

The Notes to Financial Statements are an integral part of this statement.

Emmet County Road Commission

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Year Ended December 31, 2005

Net Change in Fund Balance – Total Governmental Funds \$ 371,560

Amounts reported for governmental activities in the statements are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 2,721,708

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities. (191)

Repayment of notes payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets. Proceeds from issuance is a financing source in governmental funds. (470,152)

Expenditures which are not considered incurred under modified accrual, but are recognized as expenses in the year. (10,372)

Change in Net Assets of Governmental Activities \$ 2,612,553

Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Emmet County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Emmet County Road Commission.

A. Reporting Entity

The Emmet County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Emmet County Road Commission, a discretely presented component unit of Emmet County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund moneys distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Emmet County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements. The Commission has one major fund, the general operating fund.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or EquityCash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. All deposits are stated at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Emmet County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Emmet County Road Commission has capitalized current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Land Improvements	5 to 30 years
Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure – Roads	8 to 30 years
Infrastructure – Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Compensated Absences (Vacation and Sick Leave)

In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested vacation leave upon death, retirement or resignation. Sick leave vests upon death or retirement, limited to 50% of their total accumulated sick time up to a maximum of 50 days.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITYBudgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. The Commission violated provisions of the Act for the construction line item as indicated on page 27.

The Road Commission's Chief Administrative Officer (manager) and Clerk prepare and submit a proposed operating budget to the Board of Road Commissioners for its review and consideration. The Board conducts a public budget hearing and subsequently adopts an operating budget. The Board has authorized the Clerk to amend the Road Commission budget when necessary, without increasing the overall budget, by transferring up to 25 percent from one line item to another. The operating fund budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements. All budgets lapse at fiscal year end.

NOTE 3 - CASH AND DEPOSITS

The cash and investments are classified into the following categories:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	5,800
Money Markets	<u>1,079,646</u>
Total Cash	<u>\$ 1,085,446</u>

NOTE 3 - CASH AND DEPOSITS (Continued)

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

Interest rate risk. The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices.

Custodial investment credit risk. Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Commission invests with the County of Emmet and would receive its proportional share of holdings. Of the Commissions \$1,079,646, 100% of the amount is in the name of the agent.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. State law does not require and the Commission does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Commission's bank balance of \$185,751 was exposed to credit risk because it was uninsured and uncollateralized. Other cash balances are pooled with the County of Emmet funds and would receive a proportional share of insurance.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Emmet County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Emmet County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Emmet County Road Commission's financial statements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Emmet County Road Commission for the current year was as follows:

	Beginning Balances 01/01/05	Additions	Adjustments/ Deductions	Ending Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 37,094	\$ -	\$ -	\$ 37,094
Infrastructure Improvements	1,042,881	917,365	-	1,960,246
Construction in Progress	-	88,306	-	88,306
Subtotal	<u>1,079,975</u>	<u>1,005,671</u>	<u>-</u>	<u>2,085,646</u>
Capital Assets Being Depreciated				
Land Improvements	864,934	13,620	-	878,554
Buildings	3,653,634	-	-	3,653,634
Road Equipment	6,162,745	357,485	6,562	6,513,668
Shop Equipment	196,900	1,485	-	198,385
Office Equipment	106,711	3,278	-	109,989
Engineers' Equipment	64,133	-	-	64,133
Yard and Storage	193,606	-	-	193,606
Depletable Assets	131,801	-	-	131,801
Infrastructure – Roads	<u>1,061,716</u>	<u>1,947,992</u>	<u>-</u>	<u>3,009,708</u>
Subtotal	<u>12,436,180</u>	<u>2,323,860</u>	<u>6,562</u>	<u>14,753,478</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	Beginning Balances 01/01/05	Additions	Adjustments/ Deductions	Ending Balances 12/31/05
Less Accumulated Depreciation				
Land Improvements	936	6,184	-	7,120
Buildings	806,772	92,358	-	899,130
Road Equipment	5,213,077	348,686	6,371	5,555,392
Shop Equipment	170,808	8,725	-	179,533
Office Equipment	94,750	3,567	-	98,317
Engineers' Equipment	57,677	1,732	-	59,409
Yard and Storage	137,256	6,753	-	144,009
Depletable Assets	63,621	-	-	63,621
Infrastructure – Roads	63,006	139,818	-	202,824
Subtotal	<u>6,607,903</u>	<u>607,823</u>	<u>6,371</u>	<u>7,209,355</u>
Net Capital Assets Being Depreciated	<u>5,828,277</u>	<u>1,716,037</u>	<u>191</u>	<u>7,544,123</u>
Total Net Capital Assets	<u>\$ 6,908,252</u>	<u>\$ 2,721,708</u>	<u>\$ 191</u>	<u>\$ 9,629,769</u>

Depreciation expense was charged to programs of the Emmet County Road Commission as follows:

Equipment Expense	348,686
Administrative	10,735
Indirect	108,584
Unallocated - Infrastructure	<u>139,818</u>
Total Depreciation Expense	<u>\$ 607,823</u>

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT
Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Emmet County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 1134 Municipal Way, Lansing, Michigan.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

Funding Policy – The obligation to contribute and maintain the system for these employees was established by negotiation with the Emmet County Road Commission’s competitive bargaining units and requires a contribution from the employees of 1.1% percent of gross wages for County Road Commission.

Annual Pension Costs – For year ended 2005, the Emmet County Road Commission’s annual pension cost of \$244,039 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as of 2003, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31st is as follows:

	2002	2003	2004
Actuarial Value of Assets	\$ 7,729,466	\$ 7,794,682	\$ 7,863,505
Actuarial Accrued Liability	9,954,652	10,334,532	10,793,022
Unfunded AAL	2,225,186	2,539,850	2,929,517
Funded Ratio	78%	75%	73%
Covered Payroll	843,341	798,875	833,587
UAAL as a Percentage of Covered Payroll	264%	318%	351%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$ 159,191	100%	\$ 0
2004	198,707	100%	0
2005	244,039	100%	0

Defined Contribution Pension Plan

The Emmet County Road Commission provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the County Road Commission contributes 10% percent of employees’ gross earnings and employee contributions for each employee (plus interest allocated to the employee’s account) are fully vested. Eligible employees are required to contribute 2% of their earnings.

NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT (Continued)

The Emmet County Road Commission's total payroll during the current year was \$1,896,675. The current year contribution was calculated based on covered payroll of \$1,025,352, resulting in an employer contribution of \$102,536 and employee contributions of \$20,507.

NOTE 7 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all road commissions report all federal and state grants pertaining to their county. During the year ended December 31, 2005, the federal aid received and expended by the Road Commission was \$488,346 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the road commission performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE 9 - LONG-TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	<u>01/01/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/05</u>	<u>Due Within One Year</u>
Bonds Payable – 1995 Series - Emmet County Building Authority, (Refundable) December 2003, sliding scale interest rate of 3.8% to 5.75%.	\$ 105,000	\$ -	\$ 105,000	\$ -	\$ -
Installment payable, secured by equipment, payable in monthly installments of \$14,672 including interest of 3.83%.	-	800,000	24,276	775,724	131,182
\$2,417,155 Bonds payable to Emmet County Building Authority, 14 years including sliding scale interest rate of 2.4% to 4.25%, maturing in 2017.	<u>2,196,744</u>	<u>-</u>	<u>118,932</u>	<u>2,077,812</u>	144,292
Subtotal	2,301,744	800,000	248,208	2,853,536	
Vested Employee Benefits	<u>200,610</u>	<u>10,372</u> (1)	<u>-</u>	<u>210,982</u>	
Total Long-Term Debt	<u>\$ 2,502,354</u>	<u>\$ 810,372</u>	<u>\$ 248,208</u>	<u>\$ 3,064,518</u>	

(1) net increase

NOTE 9 - LONG-TERM DEBT (Continued)

Notes Payable:	Bonds Payable		Installment Payable	
	Principal	Interest	Principal	Interest
2006	144,292	77,197	131,182	30,209
2007	148,665	74,080	154,063	22,000
2008	153,038	70,495	160,068	15,995
2009	130,300	66,953	166,308	9,756
2010	142,544	63,009	164,103	3,254
2011-2015	907,731	220,277	-	-
2016-2017	<u>451,242</u>	<u>23,131</u>	<u>-</u>	<u>-</u>
Total	<u>\$2,077,812</u>	<u>\$ 595,142</u>	<u>\$ 775,724</u>	<u>\$ 91,214</u>

NOTE 10 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, the County Road Commission provides post-employment health care benefits to all retired employees and/or their spouse. The benefit includes the provision that a retiree pays 100% of the cost of the premium. The commission remitted \$68,528 for post employment benefits during 2005 for seven participants.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Grants - The Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Commission at December 31, 2005.

Risk Management - The Road Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Road Commission was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Road Commission joined together with other Road Commissions and created a public entity risk pool currently operating as a common risk management and insurance program. The Road Commission pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Road Commission is unable to provide an estimate of the amounts of additional assessments.

NOTE 12 - SUBSEQUENT EVENTS

Equipment Purchases – During January 2006, the Commission executed purchase orders for the acquisition of equipment in the amount of \$775,105. The Board was committed to payments upon receipt of the items. Financing of the obligation occurred during fiscal 2005.

Required Supplementary Information

Emmet County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Revenues
For the Year Ended December 31, 2005**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Licenses and Permits				
Permits	\$ 35,000	\$ 38,155	\$ 41,550	\$ 3,395
Federal Sources				
Surface Transportation Program	400,000	477,340	488,346	11,006
State Sources				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Allocation	3,530,000	3,457,735	3,490,760	33,025
Urban	90,000	114,504	117,277	2,773
Snow Removal	136,000	148,395	148,395	-
Economic Development Fund				
Rural Primary (D)	60,000	72,978	55,978	(17,000)
Forest Road (E)	63,700	32,000	36,839	4,839
Contributions from Local Units				
Townships	525,000	1,913,528	1,913,698	170
Other	-	8,413	8,413	-
Charges for Services				
State Trunkline Maintenance	650,000	741,842	757,172	15,330
Nonmaintenance	25,000	26,219	26,219	-
Salvage Sales	-	19	19	-
Interest and Rents	7,000	9,650	13,689	4,039
Other Revenue				
Other	5,000	35,545	330,726	295,181
Gain on Equipment Disposal	10,000	-	309	309
Other Financing Sources				
Installment Proceeds	-	800,000	800,000	-
Total	<u>\$ 5,546,700</u>	<u>\$ 7,886,323</u>	<u>\$ 8,239,390</u>	<u>\$ 353,067</u>

Emmet County Road Commission**Required Supplementary Information
Budgetary Comparison Schedule
Statement of Expenditures
For the Year Ended December 31, 2005**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Primary Road				
Preservation	\$ 800,000	\$ 880,000	\$ 862,109	\$ 17,891
Maintenance	1,450,000	1,500,000	1,439,261	61,739
Local Road				
Construction	-	-	608,181	(608,181)
Preservation	750,000	2,050,000	1,687,932	362,068
Maintenance	1,550,000	1,725,000	1,670,897	54,103
State Trunkline				
Maintenance	650,000	722,000	708,672	13,328
Nonmaintenance	25,000	26,300	24,822	1,478
Equipment Expense – Net	150,000	150,000	209,980	(59,980)
Administrative Expense – Net	370,000	415,000	410,800	4,200
Capital Outlay – Net	225,000	(103,195)	(76,084)	(27,111)
Debt Service				
Principal	228,400	243,236	248,208	(4,972)
Interest	<u>85,400</u>	<u>83,650</u>	<u>74,052</u>	<u>9,598</u>
Total Expenditures	6,283,800	7,691,991	<u>\$ 7,867,830</u>	<u>\$ (175,839)</u>
Fund Balance – January 1, 2005	<u>1,412,628</u>	<u>1,412,628</u>		
Total Budget	<u>\$ 7,696,428</u>	<u>\$ 9,104,619</u>		

Other Supplementary Information

Emmet County Road Commission

Analysis of Changes in Fund Balances For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,038,937	\$ 3,598,443	\$ 1,602,010	\$ 8,239,390
Total Expenditures	<u>2,477,967</u>	<u>4,335,423</u>	<u>1,054,440</u>	<u>7,867,830</u>
Excess of Revenues Over (Under) Expenditures	560,970	(736,980)	547,570	371,560
Optional Transfers	(703,543)	736,980	(33,437)	-
Fund Balance – January 1, 2005	<u>556,932</u>	<u>-</u>	<u>855,696</u>	<u>1,412,628</u>
Fund Balance – December 31, 2005	<u>\$ 414,359</u>	<u>\$ -</u>	<u>\$ 1,369,829</u>	<u>\$ 1,784,188</u>

Emmet County Road Commission**Analysis of Revenues
For the Year Ended December 31, 2005**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission</u>	<u>Total</u>
Licenses and Permits	\$ -	\$ 41,550	\$ -	\$ 41,550
Federal Sources				
Surface Transportation Program	488,346	-	-	488,346
State Sources				
Michigan Transportation Fund				
Engineering	6,468	3,532	-	10,000
Allocation	2,257,876	1,232,884	-	3,490,760
Urban	80,800	36,477	-	117,277
Snow Removal	-	148,395	-	148,395
Economic Development Fund				
Rural Primary (D)	55,978	-	-	55,978
Forest Road (E)	-	36,839	-	36,839
Contributions from Local Units				
Townships	138,146	1,775,552	-	1,913,698
Other	-	-	8,413	8,413
Charges for Services				
State Trunkline Maintenance	-	-	757,172	757,172
Nonmaintenance	-	-	26,219	26,219
Salvage Sales	-	-	19	19
Interest and Rents	3,816	-	9,873	13,689
Other Revenue				
Other	7,500	323,214	12	330,726
Gain on Disposals	7	-	302	309
Other Financing Sources				
Installment Proceeds	-	-	800,000	800,000
Total Revenue	<u>\$ 3,038,937</u>	<u>\$ 3,598,443</u>	<u>\$ 1,602,010</u>	<u>\$ 8,239,390</u>

Emmet County Road Commission

Analysis of Expenditures For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation	\$ 862,109	\$ -	\$ -	\$ 862,109
Maintenance	1,438,261	-	-	1,438,261
Local Road				
Construction	-	608,181	-	608,181
Preservation	-	1,687,932	-	1,687,932
Maintenance	-	1,670,897	-	1,670,897
State Trunkline Maintenance	-	-	708,672	708,672
State Trunkline Nonmaintenance	-	-	24,822	24,822
Equipment Expense – Net	60,096	108,392	41,492	209,980
Administrative Expense – Net	150,779	260,021	-	410,800
Capital Outlay – Net	(33,278)	-	(42,806)	(76,084)
Debt Service				
Debt Principal Payments	-	-	248,208	248,208
Interest Expense	-	-	74,052	74,052
Total Expenditures	<u>\$ 2,477,967</u>	<u>\$ 4,335,423</u>	<u>\$ 1,054,440</u>	<u>\$ 7,867,830</u>

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of County Road Commissioners
Emmet County Road Commission
2265 E. Hathaway Road
Harbor Springs, Michigan 49740

We have audited the financial statements of the governmental activities and major fund of the Emmet County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Emmet County Road Commission's basic financial statements and have issued our report thereon dated May 5, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Emmet County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated May 5, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Emmet County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co., PLC".

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2006

Emmet County Road Commission**Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2005**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Project	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION:				
Pass-Through Programs From:				
Michigan Department of Transportation (Note 7):				
Robinson Road (5 Locations)	20.205	STP 0524 (015)	80583	\$ 78,883
River Road to Urban Boundary Limits	20.205	STP 0524 (003)	80698	99,907
River Road from Bear River Road	20.205	STP 0524 (013)	77810	<u>309,556</u>
Subtotal – MDOT				<u>488,346</u>
Total U.S. Department of Transportation				488,346
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Pass-through from the State of Michigan Department of State Police (MSP):				
Hazard Mitigation Grant	97.039	-	1413 Dr-MI	<u>7,794</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 496,140</u>



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REPORT TO MANAGEMENT

Members of the Board of Commissioners
Emmet County Road Commission
Harbor Springs, MI 49740

We have audited the financial statements of the Emmet County Road Commission for the year ended December 31, 2005, and have issued our reports thereon dated May 5, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities for the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Emmet County Road Commission. Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Emmet County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Emmet County Road Commission are described in Note 1. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Emmet County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. State maintenance liabilities and estimated useful lives are examples.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Emmet County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Emmet County Road Commission, either individually or in the aggregate, indicate matters that could have a significant effect on the Emmet County Road Commission's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Emmet County Road Commission or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Emmet County Road Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

Excess Expenditures Over Appropriations

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County Road's actual expenditures were in excess of amounts appropriated for certain line items as indicated on the Statement of Expenditures – Budget and Actual.

Bank Account

During fiscal 2005, the Commission approved a new bank account which may not meet the guidelines for allowed investments of the Commission. The loan savings account is a "business" savings, which sometimes do not qualify as an allowed investment. The Commission should contact the account holder and determine if the account qualifies as an allowed public money fund savings account.

GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Emmet County Road Commission required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 will impact the future accounting of post-employment health insurance costs as it relates to the amount the Commission will be required to fund these benefits. Beginning in 2009, the Commission will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Board of Commissioners as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Emmet County Road Commission, the cognizant audit agencies and other federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 5, 2006